



DRAFT VIABILITY REPORT

For the Project

At

CRESSINGHAM GARDENS

Prepared On Behalf Of

LONDON BOROUGH OF LAMBETH

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VIABILITY REPORT FOR THE REDEVELOPMENT OF CRESSINGHAM GARDENS ESTATE



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1. INTRODUCTION

The London Borough of Lambeth (the Council) has committed to a programme of estate regeneration within the Borough to bring about long-term improvements to its housing stock and the quality of living for its residents.

To bring about this change the Council has established Homes for Lambeth (HfL); an independent company that is wholly owned by the Council. HfL will be responsible for actually implementing the regeneration proposals currently being explored by the Council.

Under this arrangement HfL will operate as a separate commercial entity. It will have its own governance and business planning processes. HfL will be responsible for raising the finances to fund the proposed development proposals.

HfL will be able to raise funding outside of the existing Housing Revenue Account. Where properties remain within the Council's Housing Revenue Account, HfL will not be able to fund future management and refurbishment costs of these homes that will remain the responsibility of the Council.

In terms of proposals for regeneration, the Council has been looking at viable options to refurbish and extend the lifespan of existing stock to provide good quality housing to meet the needs of residents. It has also been looking at areas within the Borough with development potential, including its own estates, to bring forward additional housing in the Borough to help meet the growing number of households in need of housing.

As part of this programme, the Council has identified the housing stock on the Cressingham Estate ("the site") as being in need of improvement and with the potential for delivering an up-lift in the number of homes.

Airey Miller Partnership has been commissioned to complete financial analysis of the preliminary options being considered by the Council and to report on the relative merits in financial terms of the options being explored and to establish whether there could be an implementable proposition for HfL to take on.

The scenarios tested have considered how by flexing some of the key priorities underpinning regeneration on the estate, the capital cost, funding requirements and level of cross-subsidy generated to fund additional regeneration objectives or affordable housing interlinks to bring about different outcomes and risk profiles for HfL and the Council.

The purpose of this report is therefore to provide an overview of the financial viability of the site summarising work to date.

The base options demonstrate that the some of the development options are viable, whilst others do require modest adjustments to the Councils principle objectives and aspirations. Consequently, further scenario testing will be undertaken to as more detailed design is progressed to present the Council and HfL with a number of options to allow informed decisions to be made on how and where there is flexibility in the proposed development strategy. These base options are presented in Section 4 of this report.

1.1 Delivery from the proposed options

The Council is considering four development options. These options have been produced as part of the feasibility and massing exercise completed by Karthaus Design and summarised in the Cressingham Gardens Summary Report dated March 2015:

- **Option 2 Small Partial Redevelopment and Infill**

This scenario proposes:

- Retention of the majority of the estate and refurbishment costs to be borne by the Council through the HRA.
- Development of a small number new homes on open space

Details of the Small Partial Redevelopment and Infill

- Demolition of 19 properties in Crosby
- Of which 7 tenants and 12 leaseholders/ freeholders
- Replaced with 38 new homes

- **Option 3 Partial Redevelopment and Infill**

This scenario proposes:

- Retention of the majority of the estate and refurbishment costs to be borne by the Council through the HRA.
- Development of an increased number new homes on open space

Details of the Partial Redevelopment and Infill option

- Demolition of 31 properties including Crosby
- Of which 17 tenants and 14 leaseholders/ freeholders
- Replaced with 51 new homes

- **Option 4 Significant Redevelopment**

This scenario proposes:

- Redevelopment of part of the estate
- Provision of new homes, flats and houses
- Create a new landscaped area
- Refurbishment costs to be borne by the Council through the HRA.

Details of the Significant Redevelopment option

- Demolition of Crosby, Longford, Scarlett, Papworth and Chandler
- 121 homes demolished
- Of which 93 tenants and 28 leaseholders/ freeholders
- Replaced with 193 new homes

- **Option 5 Comprehensive Redevelopment**

This scenario proposes:

- Redevelopment of the entire estate
- Provision of new homes, flats and houses (mix to be determined)
- Potential to retain / enhance available community space
- Create a new landscaped area

Details of the Comprehensive Redevelopment option

- Redevelopment of the entire estate
- Demolition of 306 homes of which 212 tenants and 94 leaseholders/ freeholders
- Provides circa 464 new homes (mix to be determined)
- Phased redevelopment (to be determined)
-

1.2 Delivery Aspirations

Under all the base options, it is been assumed that the regeneration proposals will re-provide the existing stock as far as practicable (re-providing the equivalent unit size mix as currently exists).

For the purpose of the modelling work, it is assumed that the development scenarios will be developed in one continuous programme of works. Going forward, further detailed examination of the phasing will be required.

A Right to Buy capital allocation of £1.68m is assumed for enabling and acquisitions. A Right to Buy capital input is also assumed against 30% of the net gain affordable housing construction costs. This assumes that the funding requirements can be satisfied by the Council.

Airey Miller is advised by the Council that it has set out clear minimum objectives for regeneration. These are:

- To re-provide homes for all those wishing to remain on an estate. For the purposes of the estate regeneration this means:
 - Re-providing existing tenants with an equivalent new home
 - Re-providing 80% of leaseholders with an equivalent new home
- To fix the rent for existing tenants to the equivalent of a social or target rent (i.e. homes at council rent levels)
- As a minimum, to ensure that the net gain additional new homes meet Council policy:
 - Planning Policy requires a minimum of 40% affordable homes
 - Tenancy Strategy requires that 1 and 2 bedroom properties be let at maximum of LHA rates and family homes (3 bedrooms and larger) be let at target rents

The Council has also declared its aspirations as set out below:

Tenure of net gain homes

- 60% affordable
 - made up from 100% Council Rent
- 40% private rent

Unit Size Mix of net gain homes

- 1 Bed – 15%
- 2 Bed – 50%
- 3 Bed – 25%
- 4 Bed – 10%

Rents

- Net gain affordable homes to be provided at council rent levels (otherwise known as Target Rent)

1.3 Programme and Decanting

The programme for the development options is based on a sequenced decant strategy that is aligned to the construction programme. It is acknowledged that the Council may deviate from this timeline, securing properties as and when they become available.

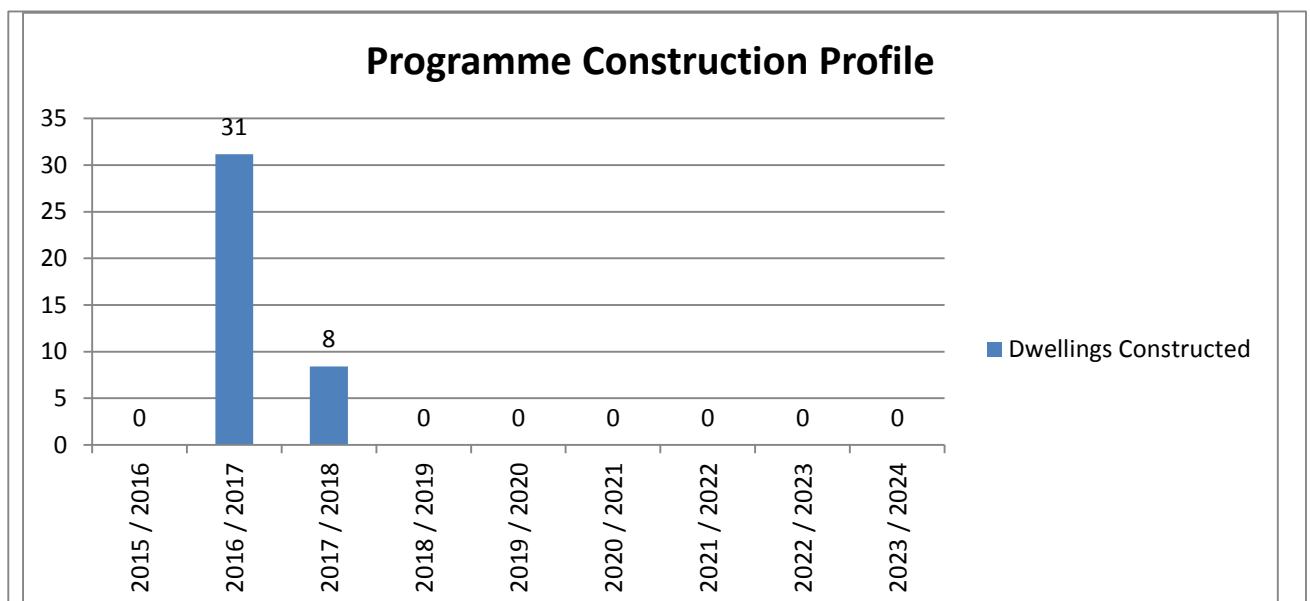
Broadly, development is proposed to take place in a continuous phase with site preparation concluding in the first quarter of 2017. Construction and refurbishment work will commence in the second quarter 2017 with work taking approximately:

- Option 2 > 65 weeks
- Option 3 > 83 weeks
- Option 4 > 139 weeks
- Option 5 > 244 weeks

The delivery profile is illustrated below for the base options:

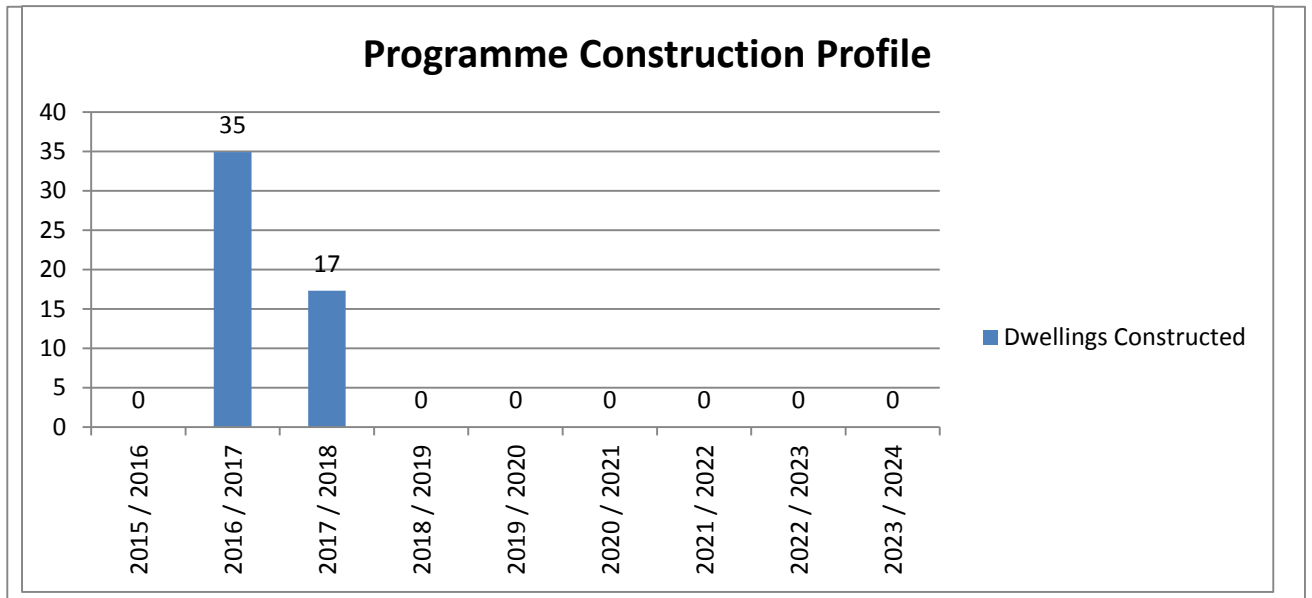
Option 2

Delivery Profile



Option 3

Delivery Profile

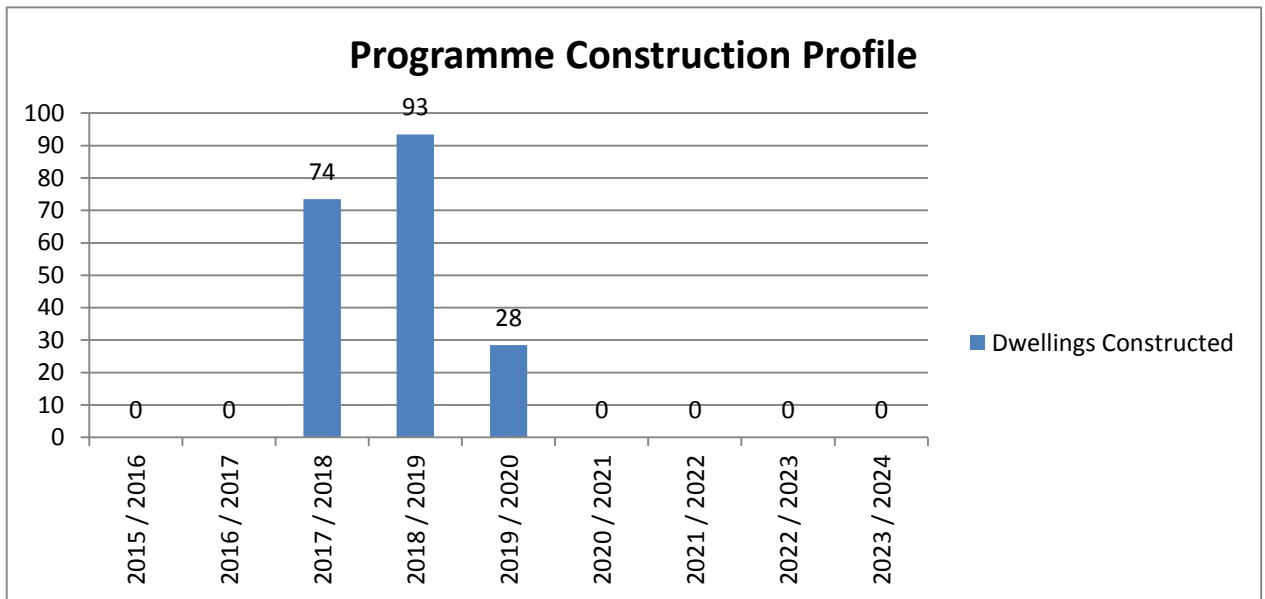


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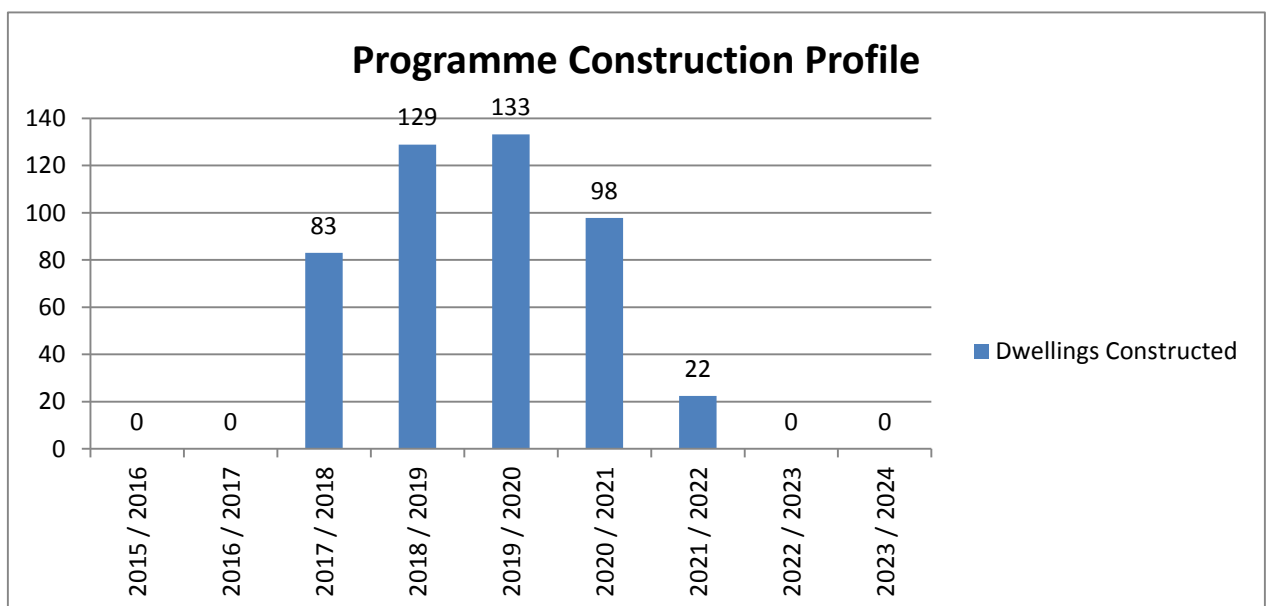
Option 4

Delivery Profile



Option 5

Delivery Profile



2. FINANCIAL VIABILITY ANALYSIS

The purpose of this financial viability analysis is to establish whether the options proposed to bring about estate regeneration at Cressingham Gardens could be viable and deliverable, providing the Council and HfL with an acceptable risk profile and a positive net present value ("NPV"¹).

In terms of the financial structure, it is recognised that the Council is still considering a number of different finance approaches. For the purpose of this analysis, the financial appraisal is operating a prudential borrowing funding structure. In brief, this approach enables:

- Development finance cost to be rolled-up
- Facility covering total expenditure to be available for drawdown.
- Certainty on finance charges for borrowing term.
- Income commences upon occupation under PRS scenario. Private sales enable income to be realised earlier through off-plan sales and earlier hand-over during construction.

To demonstrate the viability of the design options being considered, a number of financial models and scenarios have been prepared and analysed to ensure that the financial parameters of the business case are satisfied within an acceptable risk profile.

The outputs are based on a notional regeneration approach and was assessed to be viable when the following criteria were achieved:

- A positive NPV greater than £0 is calculated.
- The ability of the project to be self-financing over the lifecycle of the scheme. Self-financing means having the ability to service its operating costs beyond the construction phase.

The key data inputs of the assumed scenarios are demonstrated in the outputs reported in Section 4. To ensure consistency across the analysis the following common data sets were applicable to all the scenarios tested:

- Finance Costs (annual rate)
 - Loans at 3.58% pa (fixed)
 - Commercial uplift 0.42% pa (fixed)

¹ NPV is a measure of how profitable a future cashflow is by comparing the value of a pound today to the value of that pound at a future point, taking inflation into account. If the NPV of a prospective project is positive, the project stands to provide an increased return on investment and would be considered acceptable. However, if NPV is negative, the project probably should be rejected because the cost of implementing will not be recovered in the future.

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- Private Sale
 - Open Market Value £588.00 sqft

- Assumed rents
 - Private Rent (£pw)
 - Beds
 - 1 £354.21
 - 2 £453.96
 - 3 £605.62
 - 4 £757.29

- New Build Council Rent (£pw)
 - Beds
 - 1 £204.08
 - 2 £265.29
 - 3 £144.00
 - 4 £158.00
 - 5 £166.00

- Replaced Council Rent (£pw)
 - Beds
 - 1 £117.00
 - 2 £135.00
 - 3 £144.00
 - 4 £158.00
 - 5 £166.00

- Assumed number of leaseholders remaining on estate:
 - Remaining @ 80%
 - Leaseholder Buy Out @ 20.00%

- Percentage of gross rent assumed for capitalisation purposes:

	Beds	1	2	3	4	
Private		71.25%	71.25%	71.25%	71.25%	Gross:Net Rent
Replaced AH		76.00%	76.00%	76.00%	76.00%	Gross:Net Rent
New Build AH		80.75%	80.75%	80.75%	80.75%	Gross:Net Rent

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3. BASE OPTION

A base option has been considered for each development proposal. The base option takes account of the Council's objectives and aspirations detailed earlier in this report and determines the extent to which these ambitions can be achieved.

The base option delivers the following outcomes:

Option 2

No. of dwellings proposed fits Karthaus design (38)	Achieved
No. of net gain dwellings	19
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Achieved
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£2.3m
Gross development value (60yr)	£57.6m
% Affordable housing on whole estate	45%
Tenant and Leaseholder payments	£1.13m
Pre Finance NPV	£2.6m
Finance Cost	£19.9m
Breakeven Pre Finance	2046

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham Option 2	12		7	10		11		
	30%		18%	24%		28%		

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Option 3

No. of dwellings proposed fits Karthaus design (51)	Achieved
No. of net gain dwellings	20
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Achieved
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£2.49m
Gross development value (60yr)	£65.26m
% Affordable housing on whole estate	56%
Tenant and Leaseholder payments	£1.36m
Pre Finance NPV	£1.28m
Finance Cost	£27.74m
Breakeven Pre Finance	2019

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham	12		17	11		12		
Option 3	23%		33%	21%		23%		

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Option 4

No. of dwellings proposed fits Karthaus design (193)	Achieved
No. of net gain dwellings	72
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Achieved
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£4.64m
Gross development value (60yr)	£246.3m
% Affordable housing on whole estate	66%
Tenant and Leaseholder payments	£2.92m
Pre Finance NPV	£3.15m
Finance Cost	£106m
Breakeven Pre Finance	2020

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham Option 4	45		93	22		35		
	23%		48%	11%		18%		

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Option 5

No. of dwellings proposed fits Karthaus design (464)	Achieved
No. of net gain dwellings	158
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Flex - 85% sale / 15% PRS
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£9.15m
Gross development value (60yr)	£366.1m
% Affordable housing on whole estate	62%
Tenant and Leaseholder payments	£9.5m
Pre Finance NPV	£824k
Finance Cost	£242.9m
Breakeven Pre Finance	2022

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham	15	88	212	75		75		
Option 5	3%	19%	46%	16%		16%		

4. SCENARIO TESTING

It is recognised that it is preferable for the Council to achieve as many of its ambitions as possible, within the most acceptable risk profile.

To assess and provide visibility of some of the potential options available to the Council to secure improvements, Airey Miller Partnership has tested a number of viability scenarios. Using the base option as the starting point, sequential alterations have been made to the principle assumptions to capture and articulate the potential scope for enhancement.

In conducting these viability scenarios, three principle assumptions have been explored. These are dwelling density, tenure of private net gain dwellings, and level of affordable rents.

4.1 Outcomes of Scenario Testing

The outputs are summarised over the following pages.

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Option 2

Option 2.1

No. of dwellings proposed fits Karthaus design (38)	Achieved
No. of net gain dwellings	19
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Flex - 100% sale / 0% PRS
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£2.3m
Gross development value (60yr)	£26.97m
% Affordable housing on whole estate	46%
Tenant and Leaseholder payments	£1.13m
Total costs (exc. Construction and Tenant and Leaseholder costs)	£3.09m
Pre Finance NPV	£2.9m
Finance Cost	£7.07m
Breakeven achieved in (Post Finance Pre Tax)	2018

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham Option 2		12	7	10		11		
		30%	18%	24%		28%		

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Option 3

Option 3.1

No. of dwellings proposed fits Karthaus design (51)	Achieved
No. of net gain dwellings	20
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Flex - 100% sale / 0% PRS
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£2.49m
Gross development value (60yr)	£55.7m
% Affordable housing on whole estate	56%
Tenant and Leaseholder payments	£1.36m
Total costs (exc. Construction and Tenant and Leaseholder costs)	£3.89m
Pre Finance NPV	£1.6m
Finance Cost	£17.3m
Breakeven achieved in (Post Finance Pre Tax)	2019

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham Option 3		12	17	11		12		
		23%	33%	21%		23%		

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Option 4

Option 4.1

No. of dwellings proposed fits Karthaus design (193)	Achieved
No. of net gain dwellings	72
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Flex - 100% sale / 0% PRS
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£4.6m
Gross development value (60yr)	£130.3m
% Affordable housing on whole estate	66%
Tenant and Leaseholder payments	£2.92m
Total costs (exc. Construction and Tenant and Leaseholder costs)	£10.9m
Pre Finance NPV	£4.63m
Finance Cost	£80.7m
Breakeven achieved in (Post Finance Pre Tax)	2020

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham Option 4		45	93	22		35		
		23%	48%	11%		18%		

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Option 5

Option 5.1

No. of dwellings proposed fits Karthaus design (464)	Achieved
No. of net gain dwellings	158
Housing Size Mix	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Flex – 100% sale / 0% PRS
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£9.1m
Gross development value (60yr)	£329.8m
% Affordable housing on whole estate	62%
Tenant and Leaseholder payments	£9.5m
Total costs (exc. Construction and Tenant and Leaseholder costs)	£28.6m
Pre Finance NPV	£507k
Finance Cost	£239.1m
Breakeven achieved in (Post Finance Pre Tax)	2022

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
Cressingham Option 5		104	212	75		75		
		22%	45%	16%		16%		

Private

5. SUMMARY

Through our financial analysis of the four development options, it is evident that the Cressingham Gardens Estate is viable for regeneration.

The base options presented recognise the key objectives of delivering within the principle policy requirements of the Council and HfL.

The scenario testing then further demonstrates the scope for further refinement moving forward. Within the scenario testing reported here, it is evident that there is sufficient scope to flex the base option to achieve more of the Council's aspirations or to achieve a greater NPV.

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Notes and Exclusions

Numerous input data remains to be refined by the client and other advisors, the current model output is therefore not representative of the final scheme position.

- Indicated finance costs will not be accurate where the scheme does not reach a positive position.
- The finance structure is indicative and will need to be agreed with the eventual funder.
- This model has been prepared at an early stage in the project development based on limited information; the results of the model may therefore change in line with scheme / financial development. A further iteration of the model will be undertaken in due course.
- The gross and net rent cashflow is intended to be indicative only. A full business plan including major repair and replacement should be produced to inform cashflow.
- Airey Miller accepts no liability for the accuracy of input data other than that provided by Airey Miller Partnership. In particular, no liability is accepted in respect of values or income or operational/management costs. At present, the model uses affordable values as advised by the Council and those set out in the Local Housing Allowance for Inner South East London, June 2015. The Open Market Sales and Rental Values reported to the Council are provided by Lambert Smith Hampton and Hamptons International. These will need to be checked for a more location specific value weightings going forward.
- Airey Miller Partnership accept no liability for user changes to the model, any proposed changes should be referred to Airey Miller Partnership for checking.
- Airey Miller Partnership has produced its own Order of Costs to inform the cost assumptions. It is intended that these OoC's provide a consistent and up to date base date. The detail is based on the previous design work and it is assumed that the design will work around the existing infrastructure layout. If there is a need to re-route services etc. then this will incur additional cost.
- All figures reported are illustrative only. Cost and values will fluctuate during the development period and it is recommended that the financial position is constantly monitored to ensure financial performance is maintained.
- There may be minor discrepancies between the figures presented owing to rounding in the calculations within the financial model.
- Funding for any refurbishment through the HRA is not considered as part of the financial viability testing.
- The position does not reflect any proposed or emerging changes to the draft Housing Bill currently being progressed by Government.